

UNITED STATES DISTRICT COURT  
EASTERN DISTRICT OF CALIFORNIA

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TECHNOLOGY LICENSING  
CORPORATION,

Plaintiff,

v.

TECHNICOLOR USA, INC.,

Defendant.

NO. CIV. 2:03-1329 WBS EFB

MEMORANDUM AND ORDER RE:  
MOTION TO DISMISS

\_\_\_\_\_  
AND RELATED COUNTERCLAIMS.  
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Plaintiff Technology Licensing Corporation ("TLC") brought this action against defendant Technicolor USA, Inc. ("Technicolor"), for patent infringement. Technicolor then brought several counterclaims. TLC now moves to dismiss Technicolor's counterclaims pursuant to Federal Rule of Civil Procedure 12(b)(1) on the ground that the court does not have subject matter jurisdiction.

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1 I. Factual and Procedural Background

2 TLC owns U.S. Patent Nos. Re. 40,411 (the "'411  
3 patent") and Re. 40,412 (the "'412 patent"), which are July 1,  
4 2008, reissues of U.S. Patent Nos. 5,754,250 and 5,486,869,  
5 respectively. (Third Am. Compl. ("TAC") ¶¶ 4, 6-8, Exs. A-D  
6 (Docket No. 317).) The '411 patent comprises "a method and  
7 apparatus for identifying and separating the synchronizing signal  
8 component of video like signals by identifying or detecting the  
9 arrangement or sequence of the known occurrences [sic] of events  
10 or patterns of the sync" and the '412 patent "provides a  
11 synchronizing signal separation." (Id. Ex. A at 1, Ex. C at 1.)

12 On March 28, 2011, TLC filed a Notice of Acceptance of  
13 Technicolor's Rule 68 Offer of Judgment, (Docket No. 326), and  
14 the Clerk entered judgment on TLC's claims accordingly. (Docket  
15 No. 327.) The case was administratively closed despite  
16 Technicolor's remaining counterclaims: declaratory judgment of  
17 non-infringement, declaratory judgment of patent invalidity, and  
18 breach of a covenant made in a previous settlement agreement not  
19 to sue. (Docket No. 318.) Technicolor moved to reopen the case,  
20 which the court granted. (Docket No. 332.) Technicolor agrees  
21 that its claim for declaratory judgment of non-infringement was  
22 extinguished by the Rule 68 Offer of Judgment, but wishes to  
23 proceed on its two remaining counterclaims.

24 TLC has clarified that it understood the Rule 68  
25 judgment to include its release of all asserted claims against  
26 Technicolor, and offers the following covenant not to sue: "TLC  
27 unconditionally agrees not to sue Technicolor USA, Inc. for  
28 infringement as to any claim of the patents-in-suit based upon

1 the products currently manufactured and sold by Technicolor USA,  
2 Inc." (TLC's Resp. to Technicolor's Ex Parte Mot. to Reopen the  
3 Case at 4:16-18 ("Resp. to Ex Parte Mot.") (Docket No. 330).)

4 II. Discussion

5 A. Effect of Rule 68 Judgment

6 "Because a Rule 68 judgment is the product of an  
7 agreement between the parties, the parties define the scope of  
8 the judgment." Scosche Indus., Inc. v. Visor Gear Inc., 121 F.3d  
9 675, 678 (Fed. Cir. 1997); see Fed. R. Civ. P. 68. Here, TLC's  
10 acceptance of Technicolor's Offer of Judgment stated that TLC  
11 accepted "in full compromise of all claims by [TLC] asserted  
12 against [Technicolor]." (TLC's Notice of Acceptance at 2:1-5.)

13 TLC apparently believed that, in accepting the Offer of  
14 Judgment, a final judgment would be entered on all claims. That  
15 understanding was certainly not unreasonable. Under the Rules,  
16 the term "judgment" refers to "any order from which an appeal  
17 lies." Fed. R. Civ. P. 54(a). A judgment is generally entered  
18 only when "all the claims and all the parties' rights and  
19 liabilities" are adjudged unless the court expressly determines  
20 that judgment should be entered as to fewer than all the claims.  
21 Fed. R. Civ. P. 54(b) (emphasis added). Thus, TLC had every  
22 reason to believe that its acceptance of the Offer of Judgment  
23 would dispose of the entire case.

24 Nevertheless, the court must interpret the Rule 68  
25 judgment "according to general principles of contract law,"  
26 limiting the scope of the judgment to its terms. Scosche, 121  
27 F.3d at 678. In Scosche, the court reviewed the Offer of  
28 Judgment to determine the intent of the parties, finding that the

1 judgment was limited to "satisfy[ing] Visor Gear's claim of  
2 infringement with respect to all allegedly infringing Scosche  
3 products up to the date of the judgment." Scosche, 121 F.3d at  
4 678 (emphasis added). Thus, because the threat of future suit  
5 remained, Visor Gear's acceptance of the Offer of Judgment on its  
6 patent infringement claim did not extinguish Scosche's claim for  
7 declaratory judgment of patent invalidity.

8 In the instant action, it is clear from the plain  
9 language of TLC's Notice of Acceptance that the Rule 68 judgment  
10 applied only to "claims by [TLC] asserted against [Technicolor]." (TLC's Notice of Acceptance at 2:1-5 (emphasis added).)  
11 Thus, the Rule 68 judgment by itself did not extend to  
12 counterclaims by Technicolor asserted against TLC, and the court  
13 must consider whether it retains subject matter jurisdiction over  
14 those counterclaims.  
15

16 B. Declaratory Judgment of Patent Invalidity Claim

17 "Federal courts are courts of limited jurisdiction.  
18 They possess only that power authorized by Constitution and  
19 statute." Kokkonen v. Guardian Life Ins. Co. of Am., 511 U.S.  
20 375, 377 (1994). Article III of the United States Constitution  
21 limits the power of the federal judiciary to "cases" and  
22 "controversies." U.S. Const. art. III § 2. "The requirement of  
23 actual controversy encompasses concepts such as ripeness,  
24 standing, and the prohibition against advisory judicial rulings .  
25 . . ." BP Chems. Ltd. v. Union Carbide Corp., 4 F.3d 975, 977  
26 (Fed. Cir. 1993), abrogated on other grounds by MedImmune, Inc.  
27 v. Genentech, Inc., 549 U.S. 118 (2007).

28 The Declaratory Judgment Act provides that "[i]n a case

1 of actual controversy within its jurisdiction . . . any court of  
 2 the United States . . . may declare the rights and other legal  
 3 relations of any interested party seeking such declaration,  
 4 whether or not further relief is or could be sought." 28 U.S.C.  
 5 § 2201(a). Subject matter jurisdiction in a declaratory judgment  
 6 action thus depends on the existence of "a substantial  
 7 controversy, between parties having adverse legal interests, of  
 8 sufficient immediacy and reality to warrant the issuance of a  
 9 declaratory judgment."<sup>1</sup> MedImmune, 549 U.S. at 127 (quoting Md.  
 10 Cas. Co. v. Pac. Coal & Oil Co., 312 U.S. 270, 273 (1941)).

11 A useful question to ask in determining whether an  
 12 actual controversy exists is what, if any, "underlying legal  
 13 cause of action [] the declaratory judgment defendant could have  
 14 brought or threatened to bring, if not for the fact that the  
 15 declaratory plaintiff has preempted it." Microchip Tech. Inc. v.  
 16 Chamberlain Grp., Inc., 441 F.3d 936, 943 (Fed. Cir. 2006).<sup>2</sup>  
 17 "Without an underlying legal cause of action, any adverse  
 18 \_\_\_\_\_

19 <sup>1</sup> The previous test for subject matter jurisdiction  
 20 required that there be "both (1) an explicit threat or other  
 21 action by the patentee, which creates a reasonable apprehension  
 22 on the part of the declaratory plaintiff that it will face an  
 23 infringement suit, and (2) present activity which could  
 24 constitute infringement or concrete steps taken with the intent  
 25 to conduct such activity." BP Chems. Ltd. v. Union Carbide  
 26 Corp., 4 F.3d 975, 978 (Fed. Cir. 1993). "The Supreme Court's  
 27 opinion in MedImmune represents a rejection of [the] reasonable  
 28 apprehension of suit test." SanDisk Corp. v. STMicroelectronics,  
Inc., 480 F.3d 1372, 1380 (Fed. Cir. 2007).

25 <sup>2</sup> "In patent cases, Federal Circuit law applies to  
 26 determinations of '[w]hether an actual case or controversy exists  
 27 so that a district court may entertain an action for a  
 28 declaratory judgment of non-infringement and/or invalidity.'" Oracle Corp. v. Teilhard Techs., No. C 06-02889, 2006 WL 2844926,  
 at \*2 (quoting MedImmune, Inc. v. Centocor, Inc., 409 F.3d 1376,  
 1378 (Fed. Cir. 2005) (citations omitted), rev'd on other  
grounds, 549 U.S. 1163 (2007)).

1 economic interest that the declaratory plaintiff may have against  
2 the declaratory defendant is not a legally cognizable interest  
3 sufficient to confer declaratory judgment jurisdiction." Id.

4         The party claiming declaratory judgment jurisdiction  
5 has the burden of establishing that such jurisdiction existed at  
6 the time the claim for declaratory relief was filed and that it  
7 has continued since. See Steffel v. Thompson, 415 U.S. 452, 459  
8 n.10 (1974). "If . . . a party has actually been charged with  
9 infringement of the patent, there is, necessarily, a case or  
10 controversy adequate to support jurisdiction" at that time.  
11 Cardinal Chem. Co. v. Morton Int'l, Inc., 508 U.S. 83, 96 (1993).  
12 At the time Technicolor filed its counterclaim for declaratory  
13 judgment of invalidity, TLC's patent infringement claim was  
14 pending, so a case or controversy existed.

15         The Federal Circuit has held, however, in a line of  
16 cases beginning with Super Sack Manufacturing Corp. v. Chase  
17 Packaging Corp., 57 F.3d 1054 (Fed. Cir. 1995), abrogated on  
18 other grounds by MedImmune, 549 U.S. 118, that "a covenant not to  
19 sue for patent infringement divests the trial court of subject  
20 matter jurisdiction over claims that the patent is invalid,  
21 because the covenant eliminates any case or controversy between  
22 the parties." Dow Jones & Co. v. Ablaise Ltd., 606 F.3d 1338,  
23 1346 (Fed. Cir. 2010) (emphasis added); see also Benitec Austl.,  
24 Ltd. v. Nucleonics, Inc., 495 F.3d 1340, 1345 (Fed. Cir. 2007).

25         Technicolor argues that, in this case, TLC's covenant  
26 not to sue is insufficient to divest the court of jurisdiction  
27 for two reasons: the covenant was made too late in the litigation  
28 to have a meaningful effect, and the language of the covenant

1 does not address all possible claims against Technicolor.<sup>3</sup>

2 1. Effect of Covenant Not to Sue

3 Technicolor argues that, because TLC expressed its  
4 covenant not to sue after Rule 68 judgment was entered, the  
5 covenant does not affect the court's subject matter jurisdiction.  
6 Technicolor cites Fort James Corp. v. Solo Cup Co., 412 F.3d 1340  
7 (Fed Cir. 2005), which held that a covenant not to sue offered by  
8 the patentee after a jury verdict of non-infringement did not  
9 divest the court of subject matter jurisdiction over a  
10 declaratory judgment counterclaim for unenforceability. Id. at  
11 1348-49.

12 Fort James is a narrow exception to the general rule  
13 that a covenant not to sue divests the court of subject matter  
14 jurisdiction. Benitec, 495 F.3d at 1347. Two factors set Fort  
15 James apart: (1) the court had already gone through the  
16 "considerable effort" connected with a trial, id., and (2) "in  
17 Fort James, the jury's verdict of non-infringement[, rather than  
18 the covenant not to sue,] had removed any reasonably  
19 apprehensible justiciable controversy between the parties." Dow  
20 Jones, 606 F.3d at 1346. Here, no trial has taken place.

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22 <sup>3</sup> Technicolor quotes Cardinal Chemical Co. v. Morton  
23 International, Inc., 508 U.S. 83 (1993), for the proposition that  
24 invalidity claims "did not become moot when [the Federal Circuit]  
25 affirmed a finding of noninfringement." Id. at 98. However,  
26 that case was strictly limited to the holding that "a claim for a  
27 declaratory judgment of invalidity is independent of the  
28 patentee's charge of infringement in the following--and only the  
following--way: an affirmed finding of noninfringement does not,  
without more, justify a reviewing court's refusal to reach the  
trial court's conclusion on invalidity." Super Sack Mfg. Corp.  
v. Chase Packaging Corp., 57 F.3d 1054, 1060 (Fed. Cir. 1995),  
abrogated on other grounds by MedImmune, Inc. v. Genentech, Inc.,  
549 U.S. 118 (2007) (citing Cardinal Chem., 508 U.S. 83 (1993)).

1 As to the second factor, it appears that the Fort  
2 James court was particularly concerned with the timing of the  
3 covenant not to sue because the plaintiff, after having lost its  
4 patent infringement case at trial, made a meaningless covenant  
5 not to sue in an effort to avoid counterclaims against it.  
6 See Fort James, 412 F.3d at 1348-49. Here, TLC has actually  
7 succeeded on its patent infringement claim, so its covenant not  
8 to sue carries a meaningful effect that the covenant in Fort  
9 James did not.

10 2. Content of Covenant Not to Sue

11 "[W]hether a covenant not to sue will divest the trial  
12 court of jurisdiction depends on what is covered by the  
13 covenant." Dow Jones, 606 F.3d at 1346-47 (quoting Revolution  
14 Eyewear, Inc. v. Aspex Eyewear, Inc., 556 F.3d 1294, 1297 (Fed.  
15 Cir. 2009)) (internal quotation marks omitted). TLC's covenant  
16 not to sue includes "infringement as to any claims of the  
17 patents-in-suit based upon the products currently manufactured  
18 and sold by Technicolor USA, Inc." (Resp. to Ex Parte Mot. at  
19 4:16-18.) Technicolor argues that the covenant does not apply to  
20 (1) its activities, specifically inducement of infringement, and  
21 (2) future products, thus giving TLC remaining causes of action  
22 it could threaten to bring against Technicolor.

23 TLC states in its Reply that its covenant not to sue  
24 "even extends to any inducement activity relating to those  
25 Technicolor products [to which the covenant applies.]" (TLC's  
26 Reply in Supp. of its Mot. to Dismiss at 3:14 (Docket No. 350).)  
27 TLC's covenant not to sue "based upon the products" can  
28 reasonably be interpreted to extend to activities relating to



1 those products; there is no indication that it is limited to  
2 sales of those products. Furthermore, since TLC concedes that  
3 its covenant extends to inducement, it would be estopped from  
4 asserting otherwise in the future. See Super Sack, 57 F.3d at  
5 1059 ("Super Sack itself is bound, both now and in the future, by  
6 its promise not to sue Chase."). Accordingly, the court is  
7 satisfied that the covenant not to sue is sufficiently broad to  
8 remove any case or controversy regarding Technicolor's relevant  
9 activities.

10 Technicolor also argues that the phrase "currently  
11 manufactured" in TLC's covenant is ambiguous and could be  
12 interpreted to exclude a product manufactured in the future, even  
13 if it has the same design as a currently-manufactured product.<sup>4</sup>  
14 Two cases decided before MedImmune, and thus applying the now-  
15 disapproved "reasonable apprehension of suit" test, remain  
16 instructive.

17 In Super Sack, Chase was engaged in no "present  
18 activity" placing it at risk of an infringement suit and Chase  
19 did not claim it was planning to make any new infringing product.  
20 Thus, the Federal Circuit found that Super Sack's unconditional  
21 agreement "not to sue Chase for infringement as to any claim of  
22 the patents-in-suit based upon the products currently  
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26 <sup>4</sup> Technicolor's reliance on Revolution Eyewear, Inc. v.  
27 Aspex Eyewear, Inc., 556 F.3d 1294 (Fed. Cir. 2009), is  
28 unfounded. In that case, the court found that a continuing case  
or controversy existed, but the relevant covenant not to sue did  
not even extend to currently-produced products. Id. at 1300.

1 manufactured and sold by Chase"<sup>5</sup> was sufficient to divest the  
2 court of jurisdiction over Chase's counterclaims of non-  
3 infringement, invalidity, and unenforceability. Super Sack, 57  
4 F.3d at 1056, 1059-60. The court further explained that "[t]he  
5 residual possibility of a future infringement suit based on  
6 Chase's future acts is simply too speculative a basis for  
7 jurisdiction over Chase's counterclaim for declaratory judgments  
8 of invalidity." Id. at 1060.

9 In Amana Refrigeration, Inc. v. Quadlux, Inc., 172 F.3d  
10 852 (Fed. Cir. 1999), Amana sued Quadlux for "declaratory  
11 judgments of patent invalidity and noninfringement." Id. at 855.  
12 Quadlux responded with a covenant not to sue Amana for patent  
13 infringement based on the patent-in-suit "as it presently reads,  
14 with respect to any product currently advertised, manufactured,  
15 marketed or sold by Amana, or any product which was advertised,  
16 manufactured, marketed or sold by Amana prior to the date of" the  
17 covenant. Id. The Federal Circuit held that this promise  
18 divested the district court of jurisdiction, notwithstanding that  
19 at some indefinite point in the future, Amana might develop new  
20 products or the patent might be reissued. Id. at 855-56.

21 To demonstrate a case or controversy, Technicolor would  
22 thus need to provide the court with information regarding its  
23 intention to produce new products in the future that might  
24 infringe on TLC's patents. It has not done so. Accordingly,  
25 there is no "substantial controversy, between [TLC and  
26 Technicolor], of sufficient immediacy and reality to warrant the

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28 <sup>5</sup> The covenant not to sue in Super Sack is, in all relevant parts, identical to the one given by TLC in this action.

1 issuance of a declaratory judgment," Benitec, 495 F.3d at 1349  
2 (quoting MedImmune, 549 U.S. at 127), and the court will grant  
3 TLC's motion to dismiss Technicolor's counterclaim for  
4 declaratory judgment of patent invalidity.

5 C. Breach of Covenant Not To Sue Claim

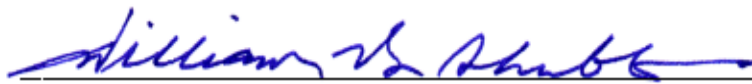
6 Because the court will dismiss the remaining patent-  
7 related claim over which it has original jurisdiction pursuant to  
8 28 U.S.C. § 1338(a), the court no longer has original  
9 jurisdiction over this action. (See Technicolor's Answer &  
10 Affirmative Defenses to TLC's Third Am. Compl. & First Am.  
11 Counterclaims ¶ 88 (Docket No. 318).) Federal courts have  
12 "supplemental jurisdiction over all other claims that are so  
13 related to claims in the action within such original jurisdiction  
14 that they form part of the same case or controversy under Article  
15 III of the United States Constitution." 28 U.S.C. § 1367(a).

16 A district court "may decline to exercise supplemental  
17 jurisdiction . . . [if] the district court has dismissed all  
18 claims over which it has original jurisdiction." 28 U.S.C. §  
19 1367(c); see also Acri v. Varian Assocs., Inc., 114 F.3d 999,  
20 1001 n.3 (9th Cir. 1997) (en banc) (explaining that a district  
21 court may decide sua sponte to decline to exercise supplemental  
22 jurisdiction). The Supreme Court has stated that "in the usual  
23 case in which all federal-law claims are eliminated before trial,  
24 the balance of factors to be considered under the pendent  
25 jurisdiction doctrine--judicial economy, convenience, fairness,  
26 and comity--will point toward declining to exercise jurisdiction  
27 over the remaining state-law claims." Carnegie-Mellon Univ. v.  
28 Cohill, 484 U.S. 343, 350 n.7 (1988).

1 Comity weighs in favor of declining to exercise  
2 supplemental jurisdiction because the state court is competent to  
3 hear the state law claim and may have a better understanding of  
4 the relevant state law. As for judicial economy, although the  
5 action has certainly been pending in this court longer than the  
6 "usual case," Technicolor's state law claim itself has not been  
7 the subject of extensive litigation. Judicial economy does not  
8 weigh in favor of exercising supplemental jurisdiction. Lastly,  
9 convenience and fairness do not weigh in favor of exercising  
10 supplemental jurisdiction. The state and federal fora are  
11 equally convenient for the parties. There is no reason to doubt  
12 that the state court will provide an equally fair adjudication of  
13 the issues. Accordingly, the court declines to exercise  
14 supplemental jurisdiction and will dismiss Technicolor's  
15 remaining state law counterclaim.

16 IT IS THEREFORE ORDERED that TLC's motion to dismiss  
17 Technicolor's counterclaims be, and the same hereby is, GRANTED.  
18 All pending dates before this court are hereby VACATED.

19 DATED: July 27, 2011

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22 WILLIAM B. SHUBB  
23 UNITED STATES DISTRICT JUDGE  
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